

Investment Sales

According to Collier's, office sales that closed in 2013 reached \$18.4 billion in total and was comprised of 58 transactions, each exceeding \$5 million. The aggregate value is only exceeded by the 2007 total of \$30.3 billion. Class A property sales in 2013 totaled \$15.4 billion, averaging \$699 per square foot. This year-end average price for Class A properties was below \$900 per square foot since it was lowered by the sale of several properties in the fourth quarter within Downtown and in some of the less prominent Midtown North submarkets. Nevertheless, according to the Downtown Alliance, "investor interest in Lower Manhattan remains robust, and commercial sales market shows healthy prospects."

The chart located below displays the five largest office building sales in Downtown in 2013.

LARGEST DOWNTOWN OFFICE BUILDING SALES IN 2013						
No.	Address	GFA (SF)	Sale Date	Buyer	Seller	Sale Price
1	One Chase Manhattan Plaza	2,239,000	December-13	Fosun International, Ltd.	JPMorgan Chase & Co.	\$725,000,000
2	195 Broadway ¹	1,052,861	November-13	JPMorgan Asset Management	Beacon Capital Partners	\$498,450,000
3	One North End Avenue ²	508,000	November-13	Brookfield Office Properties, Inc.	CME Group, Inc.	\$200,000,000
4	100 William Street	388,419	December-13	Manulife Financial	Mitsui Fudosan	\$186,500,000
5	180 Water Street ³	509,000	July-13	Emmes Asset Management	Melohn Properties, Inc.	\$151,000,000

¹ This sale included a partial interest transfer of 85%.

² This sale included the leasehold interest since it is encumbered by a ground lease.

³ This sale included the leasehold interest since it is encumbered by a ground lease.

Source: Collier and New York City public records.

JP Morgan Chase & Co. agreed to sell One Chase Manhattan Plaza to Fosun International, Ltd. for \$725,000,000 in December 2013. This acquisition is considered the largest purchase of a New York building by a Chinese investor.

Fosun International, Ltd. is based in Shanghai and is run by billionaire Guo Guangchang. The sale reaffirms the interest among Asian investors for real estate in New York City that is within the Downtown submarket. Chinese buyers are also expanding U.S. property investments, seeking yield and a safe haven while the government maintains curbs on domestic purchases. This year, a group including Zhang Xin, the billionaire co-founder of SoHo China, Ltd., acquired a stake in the General Motors Building, and Greenland Holding Group Co., a Shanghai-based, state-owned developer, agreed to buy a 70% share of Atlantic Yards in Brooklyn.

In November 2013, L&L Holding Co. and Beacon Capital, sold their majority stake in 195 Broadway to institutional investors advised by JPMorgan Asset Management for \$498,450,000. L&L Holding Co. will retain a minority interest in the property and will continue to manage and lease the building.

When L&L Holding Co. acquired the over one million-square foot property in 2011, the property had significant vacancy. However, they soon lured Omnicom Group, which leased nearly 200,000 square feet and later, HarperCollins signed a lease for 185,000 square feet. HarperCollins is due to move to the property in 2014 from its current Midtown location. During this time, asking rents increased from approximately \$30.00 per square foot to nearly \$50.00 per square foot. The property's value has also been enhanced due to the near completion of the MTA's Fulton Transit Center across the street and the addition of 35,000 square feet of retail space in the lobby and concourse. L&L Holding Co. reportedly spent \$50 million in order to create the additional retail space.

Brookfield Office Properties, Inc. purchased One North End Avenue for \$200,000,000 in November 2013 from the CME Group, Inc. The 508,000-square foot building is partially occupied by the New York Mercantile Exchange (NYMEX). NYMEX will reportedly remain in the building, but plans to downsize, leaving the new owner with approximately 300,000 square feet of vacant space. According to the NY Post, the rent for the space is approximately \$50 per square foot.

Japanese investment firm and landlord Mitsui Fudosan sold 100 William Street for \$166,500,000 in December 2013. Manulife, a Canadian insurance and financial services company, paid \$10 million less than the seller did in 2007. The almost 400,000-square foot building initially had trouble filling up with tenants, but eventually became fully occupied in 2012, after being nearly one-third vacant for several years.

The real estate investment firm Emmes Asset management purchased 180 Water Street from Melhon Properties for \$151,000,000 in July 2013. The building, constructed in 1971, is home to the city's Human Resource Administration, its only tenant, which will move to 4 World Trade Center when the under-construction tower is completed. The building was damaged by Hurricane Sandy and remained closed for more than a month. The buyer has indicated there are many possibilities for the building that include educational, hotel and residential uses. There is also a possibility that the property will remain an office building.

Construction Activity

The development of new office buildings in the area is primarily focused on the former World Financial Center site. The following highlights the new office development in the area, which will bring a significant amount of new office space to the market over the next several years.

The Port Authority expects the 2.6 million-square foot One World Trade Center to be completed in the first quarter of 2014 at a cost of \$3.9 billion. This price far exceeds the norm for building construction costs in Manhattan and is considered to be the most expensive building in the world.

However, unlike other modern office towers, One World Trade Center is being constructed with an unprecedented level of durability to withstand attacks. Skidmore, Owning & Merrill is the architect, WSP Cantor Seinuk is the structural engineer and Tishman Construction is the construction manager. The tower is slated to stand at 105 stories, with an antenna reaching hundreds of feet higher, bringing it to a symbolic 1,776 feet.

The building was formerly known as the Freedom Tower, but was eventually renamed to better attract corporate tenants. However, the moniker has remained for many. The skyscraper is one of several new developments at the site, along with a September 11 memorial, transit hub, and performing arts center. The tower is the tallest building in the country and the fourth tallest building in the world by pinnacle of height.

Two World Trade Center (200 Greenwich Street), will be located just east of One World Trade Center, at the corner of Vesey Street. The project has been designed by British architect, Lord Norman Foster, and will be the second tallest skyscraper in the city. The building will rise to 1,349 feet, topped by an 80-foot antenna, and will contain 60 office floors, four trading floors, 11.5 floors of building mechanicals, a sky-lobby, a 65-foot tall entrance lobby, and five retail levels.

The plan is to construct the site to ground level, and then await a market recovery. The office portion of this property is controlled by Silverstein Properties through a 99-year ground lease and is one of two office properties in the World Trade Center redevelopment that is currently on hold. The property does not have any tenants lined up and the owner likely does not want the new buildings to undercut the others in attracting tenants. The Westfield Group and the Port Authority control the building's underground retail space and are reportedly actively hunting for tenants.

Three World Trade Center (175 Greenwich Street) will be the third tallest building on the former World Trade Center site, and is being designed by Rogers Stirk Harbour and Partners. The building will be 80 stories high and will rise 1,140 feet above street level, containing 2.8 million square feet of office space. This property is also controlled by Silverstein properties by a 99-year ground lease.

In December 2013, Silverstein Properties announced it has leased 516,000 square feet of space to GroupM, a media investment management group. The developer can now move forward to complete the financing and construction of the property with an anticipated opening date in 2016.

The existing foundation for Three World Trade Center was built entirely with insurance proceeds. The foundations of Two and Three World Trade Centers are structurally integral to the planned transportation hub in the area.

Four World Trade Center, which faces directly onto the Memorial Park from the west, rises 977 feet from street level, making it the fourth tallest skyscraper at the site. The building is designed by Maki and Associates and the 72-story tower opened to tenants and the public in November 2013.

Larry Silverstein exercised a 2006 option for the City of New York to occupy 580,000 square feet of office space at this tower at \$56.50 per square foot. The agreement was a pledge by the City to help push development forward. If a higher paying private tenant comes along, the lease can be cancelled. The Port Authority has also committed to leasing 600,000 square feet in the tower for its headquarters.

The Westfield Group and the Port Authority control the first four floors of retail, which contains approximately 78,600 square feet of space. The space in the lower level will also provide access to an underground "retail and transportation concourse," which will be connected to the PATH terminal at the site.

The building accommodates office space using two distinct floor shapes. The 7th through 46th floors each have 36,350 square feet of space and are in the shape of a parallelogram, which is designed to echo the configuration of the site. The 48th through the 63rd floors each have 28,000 square feet and are in the shape of a trapezoid, so that it opens toward the tip of Manhattan Island and so it is triangulated to face One World Trade Center.

Construction costs are estimated to be about 20% less than One World Financial Center, as Silverstein is using \$1.36 billion in Liberty Bonds and \$450 million in insurance proceeds.

Five World Trade Center (130 Liberty Street) is the project planned for the site of the former Deutsche Bank building, which has gained notoriety because it was associated with the loss of the lives of two firefighters and the extensive time it has taken to demolish the property. In 2011, the Port Authority assumed responsibility of the site as developer. A tower was previously designed by Kohn Pedersen Fox and called for a 42-story building with a seven-floor cantilevered section starting at the 12th floor. As of September 2013, the Lower Manhattan Development Corporation and the Port Authority are actively marketing the site, but have not released any information pertaining to whether the building may have been redesigned. The future plans for the site are unclear.

Construction of the Performing Art Center, the September 11 Museum and the transportation hub are underway. Seven World Trade Center was the first building in the complex and opened in 2006. The preliminary World Trade Center site plan is located below.



The chart below identifies the planned new office development in Downtown:

Downtown Office Development				
No.	<u>Address</u>	<u>Size (Sq. Ft.)</u>	<u>Expected Completion</u>	<u>Developer/Owner</u>
1	One World Trade Center	3,020,630	Early 2014	Port Authority of NY & NJ and the Durst Organization
2	Two World Trade Center	2,800,000	N/A	Silverstein Properties and Port Authority of NY and NJ
3	Three World Trade Center	2,800,000	2016	Silverstein Properties and Port Authority of NY and NJ
4	Four World Trade Center	2,845,000	2013	Silverstein Properties and Port Authority of NY and NJ
5	Five World Trade Center	1,450,700	N/A	Port Authority of NY & NJ

Conclusion

The World Trade Center site is the center of the ongoing renaissance of Downtown Manhattan. Four World Trade Center held a ceremony when it officially opened in November 2013, which helped garner continued optimism about the area. The building topped out at 72 stories and is approximately 50% leased to the Port Authority and the City of New York (as of the end of 2013).

Silverstein Properties signed GroupM to an important lease, which satisfied pre-leasing requirements that trigger public and private financing in order to allow construction of the office space located at Three World Trade Center to commence. The new tenant will occupy 516,000, or about 35% of the building.

The construction of One World Trade Center has almost been completed and the opening of this building is anticipated to occur in early 2014. As of year-end 2013, the building was 55% leased to Conde Nast, Beijing Vantone China Center and the United States General Services Administration. The leasing team has also announced plans to lease 94,000 square feet to smaller office tenants.

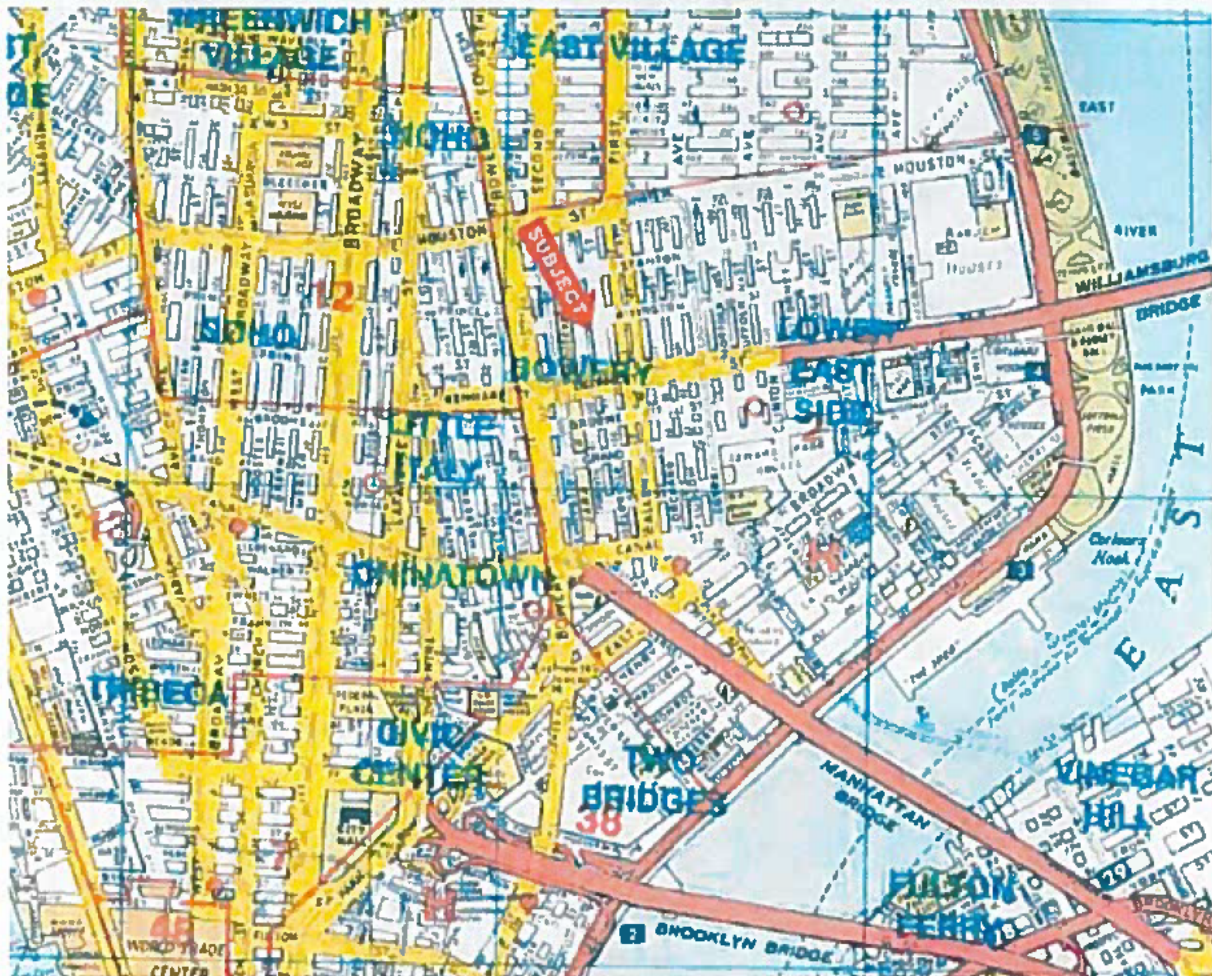
The World Trade Center Transportation Hub, designed by Santiago Calatrava, reached a major milestone in October 2013 with the opening of the World Trade Center West Concourse, an underground pedestrian connection linking the World Trade Center Path station on the east end to Brookfield Place Pavillion and the Battery Park City Ferry Terminal on the west end of the concourse. This is the first portion of the hub to open to the public. Meanwhile, construction continues on the hub's above-ground oculus and is visibly rising above the street. When the 800,000 square foot-transportation hub is complete, it will house the PATH station and a multi-level retail complex, and connect via the underground passageways to the Fulton Center on the east and Brookfield Place on the west. Construction is expected to be completed in 2015.

With the addition of office space and the ongoing transition of the area, the overall vacancy rate in Downtown in the fourth quarter of 2013 was 14.9%. With the opening of Four World Trade Center and the anticipated opening of One World Trade Center in 2014, the overall vacancy rate in the area is expected to remain relatively high. However, although there is a large amount of office space coming onto the market the overall average asking rent has increased to \$52.27 per square foot.

Downtown is a major employment center and is readily accessible by public transportation. The area is undergoing a fundamental transformation and, when completed, the building stock will be among the best in the city and the transportation system will be vastly improved. The area currently offers new quality office space at relatively affordable rental rates and has an increasing residential population. The area is also attracting businesses from various sectors. Numerous other projects are under way for the area indicating that investors have confidence that the market will improve substantially in the long-term.

Therefore, the Downtown office market will be closely scrutinized in the upcoming year with the addition of new office space and its impact on rents. However, activity in 2013, such as the migration of various business sectors to the area and increased sales activity, demonstrated that businesses and investors are optimistic about the prospects for the area.

Downtown will be poised to continue to attract tenants once economic conditions improve, particularly beginning in 2015. With economic growth, there will be a need for additional office space, and Downtown's new office inventory, as well as a reconstructed transit system connecting key areas, will help the area close the gap between rental rates in Midtown.

NEIGHBORHOOD MAP



View Looking North From Rivington Street, at Eldridge Street



View Looking East on Eldridge Street



View Looking South Along Eldridge Street From Rivington Street



View Looking East Along Rivington Street From Eldridge Street